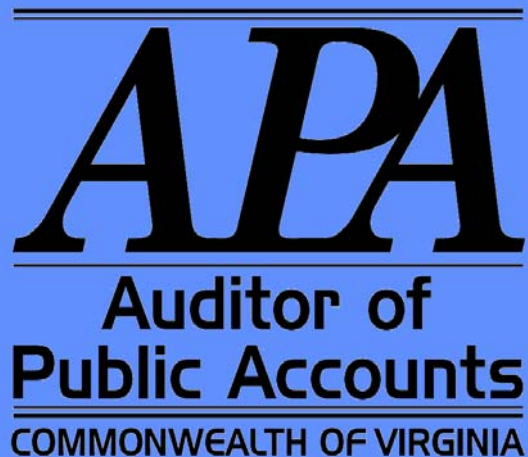


VIRGINIA STATE BAR

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007**



AUDIT SUMMARY

Our audit of the Virginia State Bar for the year ended June 30, 2007, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System and the internal accounting system of the Virginia State Bar;
- matters involving internal control and its operations necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Properly Complete Employment Eligibility Verification Forms

The Virginia State Bar (the Bar) is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the U.S. Citizenship and Immigration Services of the U.S. Department of Homeland Security in its Handbook for Employers. This guidance requires the employee to complete, sign, and date Section 1 of the I-9 form on or before the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the I-9 form within three days of employment to show that they verified the employee's identity and employment eligibility at the point of hiring.

In our sample of seven I-9 forms completed during fiscal year 2007, we noted the following non-compliance:

- Five employees did not complete Section 1 by the first day of employment;
- In one instance, the Bar did not document its review (Employer Review and Verification and Certification Sections); and
- In one instance, the employee did not properly complete Section 1.

We found that the errors were due to a lack of proper training and agency specific policy and procedures regarding the I-9 process. Therefore, we recommend that the Bar review the I-9 process, train the appropriate staff on the requirements of completing I-9 forms, and develop a procedure for continuously reviewing the I-9 process to ensure compliance with federal regulations.

Improve Information Systems Security Program

The Bar does not have a Business Impact Analysis, Risk Assessment, Continuity of Operations Plan, or Disaster Recovery Plan to reflect its current environment and certain policies and procedures do not meet the Commonwealth's information security standard. The Bar can reduce its risk of unauthorized access and alteration, corrupt data, and unavailable systems, if appropriate policies and procedures are developed to address the requirements of the Commonwealth's information security policies and standards.

In response to our audit finding from the prior year, the Bar has made adequate progress, given their size, toward compliance with the development of their System Security Program Plan. The Plan itself covers the purpose and requirements of Information Technology expectations related to Risk Management, Information Technology Contingency Planning, Information Technology Systems Security, Logical Access Control, Data Protection, Facilities Security, Personnel Security, Threat Management, and Information Technology Asset Management.

However, the program lacks certain details and Commonwealth requirements that will reduce the risk associated with confidentiality, integrity, and availability of data. We recommend that the Bar improve the following aspects of its Information Systems Security Program areas to comply with Commonwealth's security standards.

Security Awareness Program
Business Impact Analysis
Risk Assessment
Continuity of Operations Plan

Disaster Recovery Plan
Logical Access Controls
Information Security Officer

As the Bar continues to improve its Information Systems Security Program, it needs to consider the requirements of the Commonwealth's information security policies and standards. It is important for every agency to develop, implement, and train its employees on sound and robust information systems security policies and procedures that are based on the Commonwealth's policies and standards and the agency's business needs and environment.

AGENCY HIGHLIGHTS

The Virginia State Bar (the Bar) is an administrative agency of the Supreme Court of Virginia and the 75-member Bar Council is the governing body. The Bar's primary mission is the regulation, improvement, and education of members of the legal profession. All persons practicing law in Virginia must be members of the Bar. In addition to other responsibilities, the Bar initiates and prosecutes lawyer disciplinary actions.

The Bar records most of its financial operating activities on the Commonwealth's Accounting and Reporting System (CARS) under the Regulation of Professions and Occupations program. The Bar maintains separate internal records for the Administration and Finance Fund and the Clients' Protection Fund. In addition to its financial operating activities, the Bar transfers funds to affiliated parties for legal defense.

The Bar's operations are composed primarily of members' registration fees. The following table shows the Bar's original budget, final budget, and actual expenses for fiscal year 2007. The Bar received total resources of approximately \$16.6 million in fiscal year 2007 of which \$10.9 million of the dedicated special revenue funds were appropriated for the Bar's operations. The final 2007 budget increased over the original budget to reflect a reappropriation of prior year's nongeneral fund cash balance which was used to complete the professional regulation module of the Bar's software rewrite project, cover increased mileage reimbursement rate for volunteer committee members, and purchase furniture for newly acquired office space.

Affiliated parties were budgeted to receive \$2.4 million in resources from the General Fund and Legal Services of Virginia received \$3.4 million from the Legal Aid Services Special Revenue fund for purposes of providing legal defense services to the indigent.

Analysis of Budgeted and Actual Expenses for Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Expenses</u>
General fund	\$ 2,395,015	\$ 2,395,015	\$ 2,395,000
Legal aid services special revenue fund	3,600,000	3,600,000	3,404,366
Dedicated special revenue	<u>10,554,397</u>	<u>10,914,147</u>	<u>10,839,322</u>
Total	<u>\$16,549,412</u>	<u>\$16,909,162</u>	<u>\$16,638,688</u>

For fiscal year 2007, operating revenues totaled \$10.4 million, slightly higher than the \$10.1 million collected the prior year. Attorney registration fees accounted for most of the increase at approximately 78 percent of total revenue. Other increases in revenue were due to increases in court cases filed, fee increases, growth in bar membership, and lawyer referrals.

Operating expenses totaled \$10.8 million in fiscal year 2007 compared to \$10.4 in prior year. Most of this increase is due to the purchase of office furniture for newly acquired space, an increase in the retirement contribution rate, and the filling of additional positions. Personnel costs account for 63 percent and contractual services for 26 percent of the Bar's total operating expenses. Contractual services primarily consist of costs related to software development, meetings, postage, and printing. The following table shows the actual expenses by major object for fiscal year 2007.

Analysis of Actual Operating Expenses by Major Object for Fiscal Year Ended June 30, 2007

	<u>Expenses</u>	Percent of Total <u>Expenditures</u>
Personal services	\$ 6,811,285	63%
Contractual services	2,850,534	26%
Supplies and materials	123,054	1%
Transfer payments	131,150	1%
Continuous charges	634,767	6%
Equipment	<u>288,532</u>	<u>3%</u>
 Total operating expenses	 <u>\$10,839,322</u>	 <u>100%</u>

Source: Commonwealth Accounting and Reporting System

Administration and Finance Fund

The Bar records the receipt of the Administration and Finance Fund collections as revenues in the Commonwealth's accounting system and then transfers the amounts collected to a separate account maintained by the Bar. The Bar records all of the Administration and Finance Fund activities in its internal accounting system. This fund accounts for certain meeting revenues and expenses related to the Council, Executive Committee, Annual and Midyear Meetings, and other official functions of the Bar. The Bar's annual and midyear meetings' registration fees generate the Administration and Finance Fund's revenue and pays for the meetings according to the rules of the Supreme Court. During fiscal year 2007, the Fund received \$123,510 in meeting, registration fees, and interest income and paid \$126,450 in related expenses. As of June 30, 2007, the fund balance was \$256,132.

Clients' Protection Fund

The Bar is the trustee for the Clients' Protection Fund. This fund compensates clients for injuries or losses resulting from the dishonest conduct of a Bar member. The Fund originally received a portion of the member dues and member contributions. Currently, the Fund's main sources of revenue include interest on investments and reimbursements from attorneys for client settlement payments. During fiscal year 2007, the Clients' Protection Fund collected \$157,303 in interest income and reimbursements from attorneys and disbursed \$90,323 in settlements. As of June 30, 2007, the Clients' Protection Fund had a fund balance of \$3,351,392.

Affiliated Parties

The Bar also receives appropriations for a Legal Defense program in addition to the operating revenues for the Regulation of Professions and Occupations program. This program receives general and special revenue fund support that the Bar passes through to separate entities. In fiscal year 2007, the Bar transferred all of the general fund appropriations it received of \$2.395 million to third parties for legal defense.

The Bar transferred \$1.875 million in General Funds to the Legal Services Corporation of Virginia. The Legal Services Corporation of Virginia provides civil legal services for needy Virginians. The Bar also transfers the special revenue it receives from the Circuit Courts from legal aid fees to the Legal Services

Corporation in addition to general funds. In fiscal year 2007, the Bar transferred a total of \$3.404 million, to the Corporation.

The Bar transferred \$470,000 in general funds to the Virginia Capital Representation Center. The Virginia Capital Representation Center is a separately incorporated, not-for-profit corporation with its own board. The Center offers assistance or consultation to death-sentenced inmates and defendants charged with or convicted of a federal or state capital crime in Virginia.

The Community Tax Law Project provides legal assistance to low income taxpayers and to nonprofit start-up organizations whose mission is to assist low income individuals. The Bar provided the Community Tax Law project \$50,000.



Commonwealth of Virginia

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Walter J. Kucharski, Auditor

May 16, 2008

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Virginia State Bar (the Bar)** for the year ended June 30, 2007. We conducted this performance audit in accordance with generally accepted Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System and the internal accounting system of the Bar, review the adequacy of the Bar's internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The Bar's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Revenue
Expenditures

We performed audit tests to determine whether the Bar's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Bar's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses. We confirmed cash and investment accounts for the Administration and Finance Fund and the Clients' Protection Fund with outside parties.

Conclusions

We found that the Bar properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and the internal accounting system of the Bar. The Bar records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System and the internal accounting system of the Bar.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Bar has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

Exit Conference and Report Distribution

We discussed this report with management on May 30, 2008. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

SLJ/wdh

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Chief Operating Officer

Mary Yancey Spencer
Deputy Executive Director

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Assistant Executive Director
for Bar Services

Susan C. Busch
Assistant Executive Director
for Administration

George W. Chabalewski
Bar Counsel

June 5, 2008

Mr. Walter J. Kucharski
Auditor of Public Accounts
PO Box 1295
Richmond, VA 23218

Dear Mr. Kucharski:

I have reviewed the draft audit report for the Virginia State Bar for the period July 1, 2006 through June 30, 2007. You have noted two areas which require management's attention and corrective action.

You cited the bar for not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security in its Handbook for Employers (M-274). Diane Anderson, Human Resources/Facilities Director took care of this prior to the completion of your field work on this audit. The standard offer letter to new employees has been changed to require new employees to bring evidence of identity and employment eligibility with them on the first day of work. The receiver in Northern Virginia who was responsible for hiring clerical staff has been informed about his responsibility to complete the I-9 forms in the proper manner. Lastly, the I-9 forms have been removed from the employee personnel files and are filed alphabetically in a binder.

The second item you cited relates to the need to improve the information systems security program. Thank you for recognizing the progress that has been made in the past nine months since the previous audit for the year ended June 30, 2006. For the record, although not documented in the bar's security policies, the bar has employed locking, disabling, and deletion of user access. In addition, there is a password history feature on both the network level and the IBIS application which has been in place for several years.

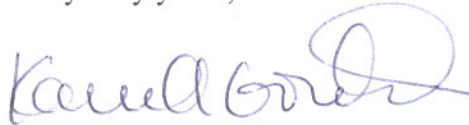
Mr. Walter J. Kucharski
June 5, 2008
Page 2

Bill Dickinson, IT Director, is responsible for bringing the bar in compliance with the requirements necessary under the Commonwealth of Virginia Information Technology Resource Management Standard 501-01. I have appointed an Information Security Officer. That person's job description has been updated to reflect this responsibility, and the organizational chart shows that he reports directly to the Executive Director for this responsibility.

I expect the information systems security program will be substantially complete by October 15, 2008.

Please do not hesitate to contact me if you need additional information.

Very truly yours,



Karen A. Gould

AGENCY OFFICIALS

VIRGINIA STATE BAR

Karen Ann Gould - President

Howard W. Martin, Jr. - President -Elect

Phillip Verne Anderson - Immediate Past President

Thomas A. Edmonds, Executive Director and Chief Operating Officer

EXECUTIVE COMMITTEE

Irving M. Blank

Manuel Aggie Capsalis

Edward Lacey Chambers, Jr.

Jon David Huddleston

Judith Lynn Rosenblatt

Alda Laverne White

Jack W. Burtch, Jr. - Ex-Officio

Maya Miriam Eckstein - Ex-Officio

George W. Shanks - Ex-Officio